

AMENDED IN SENATE AUGUST 18, 2003

CALIFORNIA LEGISLATURE—2003–04 REGULAR SESSION

**ASSEMBLY BILL**

**No. 1036**

**Introduced by Assembly Member Mullin**

February 20, 2003

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An act to amend Sections 987.65, 987.71, 987.775, and 988.4 of the Military and Veterans Code, relating to veterans, *and making an appropriation therefor.*

LEGISLATIVE COUNSEL'S DIGEST

AB 1036, as amended, Mullin. Veterans: Cal-Vet loans.

The Veterans' Farm and Home Purchase Act of 1974 authorizes the Department of Veterans Affairs to assist veterans in acquiring homes and farms by generally providing that the department may purchase a farm or home which the department then sells to a purchaser, as defined. Existing law limits the amount that the department may expend for these purposes in acquiring different types of homes and farms and provides that the department may not expend more than \$70,000 for a mobilehome that is to be sited in a mobilehome park, as defined, nor more than \$300,000 for a farm, as defined.

This bill would change these expenditure limits to \$125,000 in the case of a mobilehome that is to be sited in a mobilehome park and, in the case of a farm, to 150% of the maximum Fannie Mae loan limit, as provided.

*Existing law requires a purchaser to make an initial payment, as defined, to the department of at least 2% of the selling price, as defined, of the property to be acquired, except that the department may waive this initial payment when the value of the property, as determined by the*

*department from an appraisal, equals the amount to be paid by the department for the property plus at least 5%.*

*This bill would additionally authorize the department to waive the initial payment for a purchase that requires a loan guaranty by the United States Department of Veterans Affairs.*

*Existing law provides for the Veterans' Farm and Home Building Fund of 1943 and creates within this fund a segregated account to receive gains realized when the department declares a forfeiture of a purchaser's property, as provided. Existing law authorizes the department to expend moneys from that account for, among other purposes, providing assistance to lower income first-time purchasers by postponing loan principal payments or loan payment installments.*

*This bill would additionally authorize the department to expend moneys from this segregated account in this fund to provide initial payment assistance to lower income first-time purchasers in the form of a deferred-payment 2nd loan, as provided. By authorizing this additional use of moneys from the Veterans' Farm and Home Building Fund of 1943, an appropriated special fund, this bill would make an appropriation.*

*Existing law also authorizes the department to expend moneys from that fund for, among other purposes, for advancing to a purchaser sums for the purpose of making alterations, repairs, or improvements on or in connection with the principal place of residence of the purchaser. Existing state regulations allow a purchaser to borrow against that purchaser's equity in a farm or home that the department assisted that purchaser in acquiring only if, among other conditions, the department's interest in the home is prior and senior to any other financing on that farm or home.*

*This bill would authorize the department to secure the advances described above with a security interest that is subordinate to any existing financing on that residence.*

*Vote: majority. Appropriation: no yes. Fiscal committee: yes. State-mandated local program: no.*

*The people of the State of California do enact as follows:*

- 1 SECTION 1. Section 987.65 of the Military and Veterans
- 2 Code is amended to read:
- 3 987.65. (a) The purchase price of a home to the department,
- 4 or the sum to be expended by the department pursuant to a contract

1 for the construction of a dwelling house and other improvements,  
2 or the purchase price of a mobilehome sited on a lot owned by the  
3 purchaser and installed on a foundation system pursuant to Section  
4 18551 of the Health and Safety Code, or the purchase price of a  
5 mobilehome converted to a fixture and improvement to the  
6 underlying real property in a mobilehome park that has been  
7 converted to a resident-owned subdivision, cooperative,  
8 condominium, or nonprofit corporation as set forth in Section  
9 18555 of the Health and Safety Code, may not exceed the then  
10 current maximum Fannie Mae loan limit that is annually set by  
11 Fannie Mae for a single-family home .

12 (b) The purchase price of a mobilehome that is to be sited in a  
13 mobilehome park, as defined in Section 18214 of the Health and  
14 Safety Code, in addition to any assistance provided by the  
15 department to a veteran pursuant to subdivision (e) of Section  
16 987.85, may not exceed one hundred twenty-five thousand dollars  
17 (\$125,000).

18 (c) A veteran purchasing the home may advance, subject to  
19 Section 987.64, the difference between the total price or cost of the  
20 home and the sum of the purchase price of the home to the  
21 department and any amount the department adds, under Section  
22 987.69, to the purchase price of the home in fixing the selling price  
23 to the veteran. Any amount of the purchase price to the department  
24 may be provided by funds from participation contracts or revenue  
25 bonds.

26 (d) The purchase price of a farm to the department may not  
27 exceed 150 percent of the current maximum Fannie Mae loan limit  
28 described in subdivision (a). A veteran purchasing the farm may  
29 advance the difference between the total price of the farm, or the  
30 cost of the dwelling and improvements to be constructed on a farm  
31 under a contract, and the sum of the purchase price to the  
32 department or contract price to the department and any amount that  
33 the department adds, under Section 987.69, to the purchase or  
34 contract price to the department in fixing the selling price of the  
35 farm to the veteran.

36 SEC. 2. *Section 987.71 of the Military and Veterans Code is*  
37 *amended to read:*

38 987.71. (a) The purchaser shall make an initial payment of at  
39 least 2 percent of the selling price of the property. The department  
40 may waive the initial payment in any case where the value of the

1 property as determined by the department from an appraisal equals  
2 the amount to be paid by the department plus at least 5 percent. In  
3 the case of a purchase requiring a loan guaranty by the United  
4 States Department of Veterans Affairs, *the department may waive*  
5 *the initial payment and* the purchaser shall pay the loan guaranty  
6 fee, which may be added to the loan amount. The department may  
7 require the purchaser to pay a loan origination fee, not to exceed  
8 1 percent of the loan amount, which may be added to the loan  
9 amount.

10 (b) The balance of the loan amount may be amortized over a  
11 period fixed by the department, not exceeding 40 years for farms  
12 or homes and not exceeding 30 years for mobilehomes located in  
13 mobilehome parks, as defined in Section 18214 of the Health and  
14 Safety Code, together with interest thereon at the rate determined  
15 by the department pursuant to Section 987.87 for these  
16 amortization purposes.

17 (c) The department may, in order to allow the veteran to  
18 purchase the home selected without incurring excessive monthly  
19 payments, at the time of initial purchase, postpone the  
20 commencement of payment of the principal balance for *a period*  
21 not to exceed five years if the veteran's current income meets the  
22 standards for purchase on these terms and if the department  
23 determines, in accordance with previously established criteria for  
24 these determinations, that the veteran's income can reasonably be  
25 expected to increase sufficiently within the five-year period to  
26 make the transition to fully amortized principal and interest  
27 payments, so long as the total term of the contract of purchase does  
28 not exceed 40 years, or 30 years where the contract relates to a  
29 mobilehome located in a mobilehome park, as defined in Section  
30 18214 of the Health and Safety Code.

31 (d) The purchaser on any installment date may pay any or all  
32 installments still remaining unpaid.

33 (e) In any individual case, the department may for good cause  
34 postpone, from time to time, upon terms the department  
35 determines to be proper, the payment of the whole or any part of  
36 any installment of the purchase price or interest thereon.

37 (f) Each installment shall include an amount sufficient to pay  
38 the principal and interest on the participation contract to which the  
39 interest of the department is subject, and any amount as may be



required by a covenant or provision contained in any resolution of issuance.

(g) When a purchaser makes an initial payment of less than 20 percent of the selling price of the property, the department shall do all of the following:

(1) Take prudent measures to minimize losses from loan defaults and loan delinquencies.

(2) (A) Ensure the continued financial solvency of the loan program by charging fees to cover the costs, as determined by the department, of any loan guaranty, primary mortgage insurance, or other similar arrangement.

(B) Fees charged under this paragraph may be included in the amount of the loan, collected in advance, or collected as part of the monthly payment.

(h) (1) *Subject to paragraph (2), the department may provide initial payment assistance to lower income first-time purchasers by providing a deferred-payment second loan, upon which simple interest shall be charged at a rate established by the department.*

(2) *A deferred-payment second loan described in paragraph (1) is subject to all of the following conditions:*

(A) *The loan may not exceed 3 percent of the selling price of the farm or home.*

(B) *The loan shall be secured by a deed of trust.*

(C) *The loan shall be due and payable upon the payment in full of the contract or upon the sale or transfer of the farm or home.*

SEC. 3. *Section 987.775 of the Military and Veterans Code is amended to read:*

987.775. Whenever the department proceeds under Section 987.77 to declare a forfeiture and to retain all payments made under the forfeited contract as rental paid for occupancy, the department may, in lieu of paying any net gain to the purchaser in accordance with Section 987.79, deposit that net gain into a segregated account in the Veterans' Farm and Home Building Fund of 1943 created to receive funds pursuant to this section. The funds in the account shall be accumulated until June 30 of each year, and any losses on the sales of forfeited properties during the fiscal year shall be deducted from the total of the net gains deposited in the account during the fiscal year. The department may expend the funds remaining in the account on June 30 each year, after deduction for losses on sales of forfeited properties, for

1 purposes of assistance to lower income purchasers pursuant to  
2 subdivision (c) ~~or~~, (e), or (h) of Section 987.71 ~~who might~~  
3 ~~otherwise be rejected because of insufficient income or decline~~  
4 ~~benefits under this article because of inability to afford the initial~~  
5 ~~payment pursuant to subdivision (a) of Section 987.71. No~~  
6 ~~financial assistance provided under this section may be used to~~  
7 ~~reduce the initial payment required of the purchaser below 3~~  
8 ~~percent, except as provided by Section 987.71.~~

9 SEC. 4. Section 988.4 of the Military and Veterans Code is  
10 amended to read:

11 988.4. (a) For purposes of this section, “purchaser” includes  
12 any veteran whose only loan with the department is for the purpose  
13 of a home improvement on property that is the principal place of  
14 residence of the veteran.

15 (b) (1) Out of any money available in the Veterans’ Farm and  
16 Home Building Fund of 1943, the department may advance to a  
17 purchaser upon his or her application, and under the policies as the  
18 department may, from time to time, prescribe, sums for the  
19 purpose of making alterations, repairs, or improvements on or in  
20 connection with the principal place of residence of the purchaser.

21 (2) Notwithstanding any other provision of law, in making the  
22 advances described in paragraph (1), the department may secure  
23 that advance by issuing a deed of trust, a promissory note, or other  
24 security interest that is subordinate to any existing financing on the  
25 principal place of residence of the purchaser.

26 (c) The department shall be the sole judge of the need and  
27 desirability of making advances and the method of repayment by  
28 the purchaser under this section.